

Message Text

CONFIDENTIAL

PAGE 01 KINSHA 01797 01 OF 02 011317Z

43

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 071487

O 011225Z MAR 76

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC IMMEDIATE 6738

INFO AMEMBASSY ALGIERS IMMEDIATE

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 1797

EXDIS

FOR ASSISTANT SECRETARY SCHAUFLE FROM CHARGE

E.O. 11652: GDS

TAGS: EAID, ECON, CG

SUBJECT: ASSISTANCE PROPOSALS: BALANCE OF PAYMENTS

REF: (A) KINSHASA 1676; (B) STATE 047243 (NOTAL)

1. IN OUR REQUEST FOR INCREASED ECONOMIC ASSISTANCE FOR ZAIRE, (REF (B), WE WERE AIMING AT THE CONCERNS AND GOALS SET FORTH IN REF (B). THE CABLES CROSSED BUT THE BASIC MESSAGE IS STILL INTACT: THE USG SHOULD PROVIDE URGENT SUPPORT TO ZAIRE, IN AREAS OF GREATEST PRIORITY NEED, AS IT MOVES INTO AND THROUGH THE CRITICAL PHASE OF THE IMF REFORM PROGRAM. WE, TOO, BELIEVE THAT NEW PROGRAMS, GESTURES AND STATEMENTS OF US INTENT SHOULD BE DECIDED UPON NOW AND READY FOR USE BY THE TIME OF THE SECRETARY'S VISIT. THIS MESSAGE FOCUSES ON THE BALANCE OF PAYMENTS ASPECTS OF OUR PROGRAM AS THE MOST RESPONSIVE SET OF MEASURES WE CAN TAKE IN THE SHORT TERM TO ADDRESS THE PRIORITIES AND THE VULNERABILITIES YOU ALLUDED TO. THE ZAIRIANS HAVE SEVERAL TIMES ANNOUNCED THEIR KEY REQUIREMENTS, MOST RECENTLY WHEN UNDERSECRETARY ROBINSON WAS HERE. THEY ARE: FOOD, PHARMACEUTICALS, RAW MATERIALS AND SPARES FOR EXISTING INDUSTRY AND DEBT RELIEF.

2. BEFORE I GET INTO THE FY-77 PROGRAM, A FEW WORDS ON
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KINSHA 01797 01 OF 02 011317Z

THE FY-76 PACKAGE: WE MADE A GESTURE AND STATEMENT OF US

INTENT IN JUNE OF THIS YEAR WHEN WE TOLD MOBUTU THAT WE WOULD COME UP WITH A \$60 MILLION PACKAGE THIS FISCAL YEAR-- AND THAT BEFORE SPECIAL STRAINS WERE LAID UPON THE ZAIRIAN ECONOMY BY THE EVENTS IN ANGOLA. AS IT STANDS NOW, AND ASSUMING THE EXIM LINE COMES THROUGH RIGHT AWAY, MOBUTU WILL HAVE IN HAND COMMITMENTS OF SOME \$55 MILLION BY THE TIME THE SECRETARY ARRIVES. OUR REQUEST FOR AN ADDITIONAL \$15 MILLION IN CCC WOULD RAISE THE IMMEDIATE BALANCE OF PAYMENTS PACKAGE TO \$70 MILLION. THAT IS A GESTURE THAT WOULD BE PARTICULARLY HELPFUL TO ZAIRE IN THIS SENSITIVE PERIOD.

3. UTILIZATION OF THE PROPOSED FY-76 BALANCE OF PAYMENTS ASSISTANCE: UNTIL NOW THE ONLY PART OF OUR CURRENT PACKAGE THAT HAS BEEN AVAILABLE IS THE CCC PORTION, AND IT IS USEFUL TO REMEMBER THAT THE 10 PERCENT DOWN PAYMENT REQUIRED HAS NOT BEEN EASY TO COME BY DURING THIS TIME OF FOREIGN EXCHANGE CRISIS. HOWEVER, OUR INFORMATION IS THAT THE GOZ HAS PROVIDED, OR IS IN THE PROCESS OF PROVIDING 10 PERCENT DOWN PAYMENT FOR APPROXIMATELY \$10 MILLION OF REMAINING CCC CREDIT AND IS EXPECTED TO PROVIDE THE FRONT MONEY FOR THE REMAINDER WITHIN THE NEXT FEW DAYS. IN THE MEANTIME, WE HAVE TRANSLATED THE PL-480 AGREEMENT HERE AND IT HAS ALREADY BEEN SUBMITTED TO BISONGIMANA. WE EXPECT AGREEMENT THIS WEEK. THE CCC AND PL-480 RICE WHICH WILL COME ON STREAM OVER THE NEXT SIX TO EIGHT MONTHS WILL BE EASILY ABSORBED (NOT COUNTING THE REFUGEE PROBLEM WHICH WILL BE ADDRESSED IN A SEPARATE MESSAGE).

4. THE ADDITIONAL \$15 MILLION CCC FOR FY-76 WE REQUESTED WOULD BE USED AS FOLLOWS:

A) FORZEN POULTRY: IN APRIL 1975, SAPA IMPORTED US FROZEN WHOLE CHICKEN FOR FIRST TIME. SALES RESULTS WERE EXCELLENT. IN NOVEMBER 1975, SAPA PLACED A FIRM ORDER WITH UNITED EGG PRODUCERS (UEP) FOR WHOLE CHICKEN, BUT UEP WOULD NOT SHIP WITHOUT AN IRREVOCABLE CONFIRMED LETTER OF CREDIT. BOTH SAPA AND UEP HAVE WRITTEN THE AGATT ASKING THAT POULTRY BE ADDED AS CCC COMMODITY. PROPOSED LEVEL OF FUNDING (\$.5 MILLION) IS A CONSERVATIVE ESTIMATE OF SAPA'S POULTRY IMPORT NEEDS FOR THE LAST HALF OF APRIL, MAY AND JUNE 1976.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KINSHA 01797 01 OF 02 011317Z

B) CORN: CORN IMPORTS INTO POLITICALLY VULNERABLE SHABA REGION EASILY RUN 100,000 MT PER YEAR. ALL IMPORTS ARE NOW FROM RHODESIA AND ZAMBIA ON A CASH BEFORE SHIPMENT BASIS. WHILE US ORIGIN CORN WOULD BE MORE EXPENSIVE, 3-YEAR CREDIT MAKES IT VERY ATTRACTIVE. WE ADMIT TO A POTENTIAL PROBLEM WITH IMPORT OF US CORN SINCE SHABA CONSUMERS PREFER WHITE CORN. IF THIS PROVES TO BE A STUMBLING BLOCK, WE HAVE

RECENT LETTERS AND TELEXES FROM THE TRADING FIRM, INTERCONTINENTS, ASKING CCC CREDITS FOR PEANUT OIL, COTTONSEED OIL, WHITE BEANS AND FORZEN POULTRY. INTERCONTINENTS IS FAR AND AWAY THE LARGEST FOOD IMPORTER IN THE SHABA REGION.

C) WHEAT: MIDEMA MILL IMPORTS A MINIMUM OF \$2.5 MILLION WORTH OF US NO. 2 HARD WINTER WHEAT PER MONTH. THEY HAVE REPEATEDLY ASKED US FOR ADDITIONAL CCC CREDIT. OUR REQUEST FOR \$8 MILLION ADDITIONAL CCC WHEAT CREDIT WOULD CARRY ZAIRE'S BREAD CONSUMPTION THROUGH JULY 1, 1976. TALK ABOUT A POLITICALLY VULNERABLE AREA.....

D) TOBACCO: ZAIRE HAS TWO TOBACCO PROCESSORS, BAT AND TABAZAIRE. BAT TOOK ALL OF CURRENT CCC TOBACCO CREDIT. TABAZAIRE IS VERY LOW ON US TOBACCO FOR CIGARETTE BLEND. IF CCC WOULD AGREE TO ADDITIONAL \$2 MILLION FOR TOBACCO, TABAZAIRE HAS SAID IT WILL TAKE IT ALL UPON PUBLIC ANNOUNCEMENT.

E) COTTON: KINSHASA 1279 REPORTED A TRADE ENQUIRY FOR 5-6,000 MT (\$5-\$6 MILLION) OF COTTON IMPORTS TO START ASAP. THE \$3 MILLION CREDIT WE SUGGEST WILL GO QUICKLY.

5. THE FY-76 EXIM LINE OF \$20 MILLION AND THE SSA PROGRAM LOAN OF \$10-12 MILLION WILL ALSO BE ABSORBED RAPIDLY AND EASILY. FROM INFORMATION AVAILABLE TO US, ON US SOURCED OR SOURCEABLE REQUIREMENTS OF US COMPANIES ALONE, THE REQUIREMENTS FOR THE REMAINDER OF FY-1976 APPROACH \$20 MILLION. THAT LEAVES \$10-12 MILLION FOR WHICH TRADITIONAL SUPPLIERS OF US MANUFACTURED HEAVY EQUIPMENT TO GECAMINES, THE CONSTRUCTION INDUSTRY AND OTHER END USERS, NOW IN NEED OF CRITICAL SPARE PARTS AND REPLACEMENT EQUIPMENT FOR OVER A YEAR, CAN COMPETE WITH IMPORTERS OF FERTILIZERS, CHEMICALS, ETC. AND IN NONE OF THESE CALCULATIONS HAVE WE ADDRESSED THE SENSITIVE PHARMACEUTICAL SECTOR WHERE A

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 KINSHA 01797 01 OF 02 011317Z

COMBINATION OF GOVERNMENT INTERFERENCE AND THE FOREIGN EXCHANGE CRISIS HAS LEFT THE DRUG STORE SHELVES BARE. AGAIN, IF WE ARE LOOKING FOR WAYS TO ADDRESS POTENTIAL FLASH POINTS, WE MIGHT THINK OF LOOSENING UP OUR GUIDELINES ON THE SSA TO APPROVE PHARMACEUTICAL INPUTS. THE ONE US MANUFACTURER HERE, WARNER LAMBERT, COULD SOURCE \$3 TO 5 MILLION PER YEAR IN RAW MATERIALS OUT OF THE US.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 KINSHA 01797 02 OF 02 011443Z

43

ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 072515

O 011225Z MAR 76

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC IMMEDIATE 6739

INFO AMEMBASSY ALGIERS IMMEDIATE

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 1797

EXDIS

6. NOW FOR THE FY-77 PACKAGE: THE DEPARTMENT RIGHTLY DOES NOT WISH TO ACCUMULATE IMPORT FINANCING IN THE PIPELINE WHICH ZAIRE CANNOT EFFECTIVELY DISBURSE, BUT REF (B) ALSO POINTS OUT THAT THE SSA PROGRAM CANNOT BE IMPLEMENTED UNTIL AFTER SEPTEMBER WHICH IS THE EARLIEST WE WOULD HAVE APPROPRIATION AUTHORITY. THESE ASSUMPTIONS FIT WELL WITH OUR ESTIMATE OF WHAT WILL TRANSPIRE OVER THE COURSE OF THIS YEAR: ZAIRE PLANS TO USE SOME \$60 MILLION OF THE AVAILABLE \$150 FROM THE IMF TO "FLOOD THE MARKET" WITH BASIC FOODS AND PHARMACEUTICALS BEFORE DEVALUATION IS ANNOUNCED. MORE LIKELY, LARGE ORDERS WILL BE PLACED AT THE OLD PRICE, BUT THE GOODS WILL NOT GET HERE UNTIL SOME TIME AFTER THE FUND PROGRAM IS ANNOUNCED. IN THESE CIRCUMSTANCES, WE PREDICT THAT THE GOODS WILL BE SNAPPED UP VERY QUICKLY; A GOOD PART WILL MOVE INTO SPECULATIVE STOCKS AT ALL LEVELS IN THE ECONOMY AND OTHERWISE LOSE MUCH OF THE DESIRED CUSHIONING EFFECT. THUS BY JUNE, ASSUMING OUR OWN \$70 MILLION HAS BEEN USED ZAIRE WILL BE SCREAMING FOR THE REST OF THE IMF DRAWINGS, WHICH SHOULD LAST UNTIL ABOUT AUGUST. BY SEPTEMBER, THEN, THERE WILL BE A REMAINING GAP OF BETWEEN \$80 TO \$100 MILLION. IF THE BELGIANS COME THROUGH AT THE LEVEL REPORTED IN KINSHASA 1760 (,95 A SURE THING IN MY OPINION) ZAIRE CAN MAKE IT THROUGH THE END OF 1976 AND PERHAPS INTO FEBRUARY OF 1977.

7. THE FOREGOING PARA DEALS ONLY IN TERMS OF THE PROJECTED \$300 MILLION DEFICIT ON THE IMPORT ACCOUNT AND ASSUMES THAT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 KINSHA 01797 02 OF 02 011443Z

THE DEBT RE-SCHEDULING EXERCISE WILL TAKE CARE OF THE ENTIRE \$300 MILLION DEFICIT ON DEBT SERVICE--HEARDLY LIKELY. IN

ADDITION, AN ARITHMETIC EXERCISE DOES NOT TAKE INTO ACCOUNT SOURCING PROBLEMS OF INDIVIDUAL INDUSTRIES OR POLITICAL PROBLEMS ARISING FROM GAPS IN BASIC FOOD SUPPLIES. AT A MINIMUM, I BELIEVE THAT WHILE THE FY SSA AND EXIM PROGRAMS MIGHT WAIT UNTIL LATE 1976 OR EARLY 77 TO COME INTO EFFECT--WE SHOULD TRY TO MOVE MORE QUICKLY ON THE PROPOSED CCC/PL-480 PACKAGE AND AIM TO PHASE IT IN BEHIND THE FY76 PROGRAM. THE WHEAT, FOR EXAMPLE, SHOULD COME ON STEAM AS OF EARLY JULY. IF THE US CORN TURNS OUT TO BE A STUMBLING BLOCK, WE SHOULD SHIFT INTO RICE AND OTHER COMMODITIES, MAKING SURE THAT WE DO NOT OVERLOAD THE CIRCUIT, ESPECIALLY IN RICE.

8. AS FOR THE \$100 MILLION EXIM/SSA PACKAGE WE HAVE PROPOSED, IT IS DIFFICULT TO SEE THE DETAILS OF PROJECTED UTILIZATION FOR THE SIMPLE REASON THAT WE CANNOT TALK TO THE ZAIRIANS ABOUT IT. BUT FROM WHAT WE KNOW, WE BELIEVE IT WILL BE NEEDED AND CAN BE EASILY ABSORBED. IN THE FIRST PLACE, IT WILL COME INTO EFFECT IN LATE 1976 AND BE DESIGNED TO COVER REQUIREMENTS THROUGH LATE 1977--A TIME DURING WHICH ZAIRE WILL FACE ESSENTIALLY THE SAME PROBLEMS IT NOW FACES. IN ADDITION TO THE RAW MATERIAL IMPORT NEEDS OF US BUSINESS, THERE ARE REQUIREMENTS FOR HEAVY EQUIPMENT FOR GECAMINES AND THE TRANSPORTATION SECTOR, SPARES FOR ALL OF THE ABOVE, FERTILIZER REQUIREMENTS AND POTENTIAL PHARMACEUTICAL RAW MATERIALS. WE CANNOT RELY ON PREVIOUS IMPORT STATISTICS SINCE THE SITUATION HAS BEEN CHANGED BY THE CREDIT CUT-OFF, EVENTS IN ANGOLA AND A GENERAL SHIFTING FROM TRADITIONAL SOURCES TO ANY SUPPLIER WHO CAN COME UP WITH THE CREDIT.

9. THE FOREGOING PARAGRAPH DEALS ESSENTIALLY WITH URGENT REQUIREMENTS NECESSARY TO KEEP PART OF THE ECONOMY ALIVE. IT DOES NOT FULLY ADDRESS THE CRITICAL OPERATION OF STOCKS WHICH HAVE BEEN RUN DOWN, IN MOST CASES TO ZERO. WE CALCULATE THAT ZAIRE, OVER THE PERIOD MID-1976 TO MID-1977, SECTORS ARE TO BE IN A POSITION TO MOVE AHEAD AS THE IMF REFORM PROGRAM TAKES EFFECT. LASTLY, BUT IMPORTANT, WE CAN AND SHOULD INCREASE OUR SHARE OF THE MARKET AS WE MOVE TO HELP ZAIRE THROUGH ITS DIFFICULT PERIOD AND ONTO MORE CONFIDENTIAL

CONFIDENTIAL

PAGE 03 KINSHA 01797 02 OF 02 011443Z

SOLID ECONOMIC POSITION.

10. FINALLY, I BELIEVE WE MUST ADDRESS THE POLITICAL ASPECT OF THE PROPOSED FY-77 BALANCE OF PAYMENTS PACKAGE. AS THE DEPARTMENT POINTED OUT, THE FACT THAT WE ARE ASKING FOR A CERTAIN SUM FROM CONGRESS WILL HAVE THE DESIRED PSYCHOLOGICAL IMPACT HERE IN ZAIRE AND ELSEWHERE. FACED WITH THE CONSEQUENCES OF A 1976 DEFICIT OF \$600 MILLION DRUMMED INTO HIM BY THE IMF--AND NOT COUNTING ARREARAGES ON OPEN ACCOUNT,

THE SHORT-TERM COMMERCIAL OVERHANG AND BILLS RUN UP OVERSEAS
BY AIR-ZAIRE AND OTHERS--MOBUTU WILL NOT BE TERRIBLY IMPRESSED
WITH AN FY-77 PROPOSAL THAT COMES OUT ABOUT WHERE WE WERE
IN FY-76 (THAT'S THE WAY I READ REF (B)). IN SUM, IF WE WANT
TO ADDRESS THE OBJECTIVE IN PARAS ONE THROUGH FOUR OF
REF (B), WE SHOULD GO FOR THE FY-76 AND 77 BALANCE OF
PAYMENTS ASSISTANCE LEVELS PROPOSED IN REF (A).
WALKER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, DRUGS, RAW MATERIALS, SPARE PARTS, BALANCE OF PAYMENTS, FOODS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 MAR 1976
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976KINSHA01797
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760077-0370
From: KINSHASA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t197603108/aaaadrnc.tel
Line Count: 285
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 76 KINSHASA 1676, 76 STATE 47243
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 07 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 JUN 2004 by buchant0>; APPROVED <30 SEP 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ASSISTANCE PROPOSALS: BALANCE OF PAYMENTS
TAGS: EAID, ECON, CG
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006